BUDGET SPEECH
1967-68

Sri C. N. Annadurai
Chief Minister

20th March 1967

GOVERNMENT OF MADRAS

FINANCE DEPARTMENT

Speech of Sri C. N. Annadurai, Chief Minister, presenting the Budget for 1967–68 *to the Madras Legislature on 20th March* 1967.

Sir,

I consider it a privilege to present my first Budget to the new Legislature. The Budget for 1967–68, which I am presenting, is however only an Interim one, although in consonance with the provisions of the Constitution, the estimates of revenue and expenditure have been prepared for the year as a whole. The Budget has been framed with reference to past commitments and policies so as to ensure that the business of Government and developmental programmes already under way are carried on without any set-back pending a detailed review of policies and programmes by the new ministry. The Budget Estimates for 1967–68 do not also provide for, what are called " Part II Schemes " or " New Schemes ", which the departments are keen on implementing in the coming year. These schemes will have to be considered by the present Government and provided for to the extent resources become available. Government will therefore consider the Budget Estimates for 1967–68 afresh and recast them making also provision for new schemes and new policies and present them to the Legislature some time in June 1967. I should also point out that though the estimates for revenue and expenditure have been framed for the year as a whole,

the outlays for full grants as embodied in this Budget will not be presented to the Legislature at this sitting. After a general discussion on the Budget Estimates, a vote on account will be asked for to meet the anticipated expenditure during the first four months of the next financial year. A White Paper explaining briefly the accounts of the year 1965–66, the Revised Estimates for 1966–67 and the Budget Estimates for 1967–68 as now framed, has been placed on the Table of the House along with other Budget documents. I shall not go over the same ground but merely draw attention to a few salient features of the Budget Estimates.

2. The Revised Estimates for the current year have been framed on the basis of data furnished by departments between October and December 1966 and these now reveal a revenue deficit of the order of Rs 7,45 lakhs, as against a marginal surplus of Rs 31 lakhs anticipated in the Budget Estimates. But in spite of this large revenue deficit, taking revenue account, loan and capital account and public account together, the overall budgetary position of the State will be balanced and the closing cash balance will be of the same order as assumed in the Budget Estimates. A number of post-budget decisions and developments are responsible for the considerable worsening now noticed on revenue account. I shall refer here briefly to some of the more important decisions which have had an adverse impact on the budgetary position of the State. In the wake of increase in rates of dearness allowance for employees of the Central Government, the State Government had to sanction two instalments of similar increases in dearness allowance for their employees including employees of local bodies and teachers in aided schools. The first increase which took effect from 1st June 1966 entailed an expenditure of Rs 3·6 crores in a full year and Rs 2·7 crores in the current year. The second instalment

of dearness allowance which was effective from 1st December 1966 involved an additional expenditure of Rs 5·9 crores in a full year, of which the impact in the current year alone will be about Rs 1·5 crores. The abolition of sales tax on foodgrains, which was previously being levied at 1 per cent multipoint, with effect from 1st April 1966 has also involved a loss of revenue of the order of Rs 1·5 crores. The repeal of the surcharge of 25 per cent on land revenue pending a comprehensive decision on the future of land revenue again meant a sacrifice of revenue of about Rs 1·5 crores. While framing the Budget Estimates for 1966–67, we had also assumed that a sum of Rs 3·5 crores will accrue to the State Government as its share of additional taxation by the Centre. This was the figure indicated to us by the Planning Commission during our discussions with them at the time of finalisation of the Annual Plan 1966–67. The Budget proposals of the Central Government for the current year actually embodied two measures designed to make additional resources available to the States. One was the increase in Central Sales Tax from 2 per cent to 3 per cent and the other related to adjustments in rates of Union Excise Duties which are shareable with the States. Our calculations now show that we will be getting only about Rs 1 crore as additional revenue from Central Sales Tax and about Rs 70 lakhs as our share of the additional revenue from upward revision of Union Excise Duties. We would thus be getting on the whole only Rs 1·7 crores as our share of the additional effort by the Centre, against our original assumption of Rs 3·5 crores. I should also like to stress that the buoyancy of State as well as shareable Central Taxes has been considerably less than in the earlier years of the Third Plan period, reflecting in some measure the slow rate of growth of the Indian economy. The cumulative effect of all these factors is reflected in the substantial revenue deficit now

revealed by the Revised Estimates. I should also add that as in previous years, there may be some increase in expenditure at the stage of final modified appropriation over the provisions now made in revised estimates. But we are taking care to see that these increases are kept down to the minimum possible and we hope that whatever inevitable increase occurs will be offset by improvement in revenue receipts leaving the final position more or less unaltered. The extent of increase over revised estimates will be reflected in the Final Supplementary Estimates which I will be presenting tomorrow to this House.

3. On the Ways and Means side too, the current year has been one of considerable stress and strain, though the year opened with a fairly comfortable cash balance of Rs 7,35 lakhs with an outstanding Ways and Means advance of Rs 3,75 lakhs or in other words, an effective cash balance of about Rs 3,60 lakhs. The large expenditure on Capital Account and certain adverse trends in miscellaneous capital receipts have been responsible for our Ways and Means difficulties in the current year. The House will recall that in the wake of the Chinese aggression, the State Government had increased the rates of contribution to the Provident Fund of employees of State Government, local bodies and teachers in aided schools. In response to representations from the employees, the Government were pleased to withdraw the scheme with effect from June 1966 and this entailed a reduction in net receipts of the order of Rs 1 crore in the current year over the original estimates. While framing the Estimates for 1966–67 we had also assumed that the State Government would be able to float an open market loan of Rs 14 crores. But later with reference to the actual conditions in the money market and on the advice of the Reserve Bank, we were obliged to restrict the issue to Rs 13 crores. There has also been no improvement in collections under Small Savings unlike in previous

years over the original estimates. Notwithstanding these adverse trends, we expect that we should be able to close the current year with the minimum closing balance, provided our expectations in regard to release of Central assistance as agreed upon do not go awry. The House should also be glad to know that it is our firm belief that we will be able to close the year without any unauthorised overdraft from the Reserve Bank.

4. It is against this background that the Budget Estimates for next year should be viewed. In estimating the revenues for next year, we have provided for a reasonable rate of growth under the more elastic sources of State revenue such as sales tax, motor vehicles tax and tax on consumption of electricity. A decision of policy is yet to be taken by the Government on the future of land revenue. The Report of the Special Officer appointed to consider the question of abolition of land revenue in all its aspects has just been received. It will take a little time for the Government to consider the Report of the Special Officer and take decisions thereon. The Finance Department has in these circumstances, assumed normal collections under land revenue, leaving out only the proceeds of the surcharge on land revenue, which has been repealed. Government's decisions on the future of land revenue will therefore be reflected only in the regular budget to be presented to the Legislature. In regard to expenditure on revenue account, we have at this stage provided for only minimal increases in non-developmental expenditure. On developmental expenditure of a maintenance nature too, we have kept the increase to the minimum so as to conserve the resources for utilisation on new developmental programmes which form part of the Plan. On this basis, the receipts on revenue account for 1967–68 have been placed at Rs 204·39 crores and expenditure

at Rs 211·99 crores, resulting in a revenue deficit of Rs 7,60 lakhs, which is marginally higher than the current year's anticipated revenue deficit of Rs 7,45 lakhs. The revenue deficit is no doubt substantial. But it is largely the result of the second instalment of increase in rates of dearness allowance sanctioned in the current year. The revenue deficit would by itself have been no cause for serious concern, if we could have at least balanced the budget in overall terms taking into account the net receipts on Capital account and Public account too. But even here, our estimates point to a negative closing cash balance of Rs 8,85 lakhs. We have a large open market loan maturing for repayment next year and commitments on this account are estimated at Rs 10·47 crores. Against this, on the estimate recently made in consultation with the Reserve Bank of India, we may be able to raise a fresh open market loan of Rs 18 crores, resulting, after repayment of the maturing debt, in net realisation of the order of only Rs 7·53 crores. We should remember that in the current year we were able to raise a loan of Rs 13·24 crores with no amount falling due for repayment. Worsening under public debt will thus be to the extent of Rs 5·71 crores as compared with the current year and this one factor alone contributes in a very substantial manner to the disequilibrium in the next year's budget.

5. We are leaving the revenue deficit as well as the overall deficit uncovered at this stage. The House is aware that though the first year of the Fourth Plan is drawing to a close, the Fourth Plan is yet to be finalised. We had framed the annual Plan for 1966–67 providing largely for schemes spilling over from the Third Plan period and for certain vital agricultural production programmes and inescapable increases under social services

like education, medical relief and public health. The Planning Commission which recently held a round of discussions with the State Governments, has accorded tentative approval for the State's draft Fourth Five-Year Plan. The outlay contemplated in the State's Fourth Plan is of the order of Rs 564 crores, towards which the Central Government will extend assistance to the extent of Rs 250 crores, the balance of Rs 314 crores being found by the State Government. Since then the Planning Commission has also taken certain decisions on the transfer of outlays on some Centrally-sponsored Schemes to the State sector with corresponding transfer of resources. The additional amounts which would become available to the different States in this process have not yet been worked out and indicated by the Planning Commission. With such a transfer we may expect the outlay on the State's Fourth Five-Year Plan to be not less than Rs 600 crores. The Fourth Five-Year Plan is however yet to be formally approved by the National Development Council. The State Government will undertake a quick and comprehensive review of the State's draft Fourth Five-Year Plan and consider what essential adjustments in priorities are necessary. As part of this review the Government will also make a fresh appraisal of the resources available with the State Government for fulfilling the Plan. This review will naturally take time and the results will be reflected only in the regular budget to be presented to the Legislature.

6. The uncertainty regarding resources for the Plan at the national level still persists and will disappear only when we can get a clear picture of the prospects of foreign aid. The Planning Commission has at this stage asked the State Governments to frame only an interim Plan for 1967–68, providing for agricultural production

programmes, continuing irrigation schemes and power projects for which foreign assistance has already been tied. The State Governments have been left to make such provision as is possible for other sectors including social services. The Central Government too, is presenting only an Interim Budget at this stage to Parliament based on existing rates of taxation. The assistance expected to be provided for in the Centre's Interim Budget for next year's Plan for the State is only Rs 35 crores, which would in fact be appreciably less than the assistance agreed to for the current year. In the circumstances, we have considered how best we can prune the outlays on the Plan for the next year, keeping also in view the need to maintain the tempo of programmes already under execution without any serious set-back. The Hon'ble Members would have noticed that the revised outlay on the current year's Plan is nearly Rs 80 crores. Allowing for even a minimum rate of growth and for some inevitable new schemes under social services and other sectors, the outlay on next year's plan should have been fixed at around Rs 90 crores. Even after making allowance for the present constraint on resources, we have felt that the minimum outlay on Plan schemes cannot be fixed at less than Rs 75·78 crores in the Interim Budget. Any smaller outlay than this would lead to a considerable slowing down of vital schemes in sectors like power, irrigation and agricultural production, thus holding up early fruition of investments already made. There is a gap in resources of the order of Rs 9 crores even for fulfilling this limited Plan embodied in the Interim Budget. The gap will widen further when we provide for new schemes and restore the cuts which we have made at this stage under even vital programmes like minor irrigation and rural electrification. In presenting a Plan with a built-in gap,

we have been moved largely by two considerations. We expect that there will be some improvement in our resources when the Budget Estimates for 1967–68 are recast with reference to the actuals of the current year, particularly if the economy picks up in the meanwhile. Secondly, the Central assistance for State's Plan for next year will necessarily have to be marked up when the regular Budget of the Central Government is framed. We should normally expect to get in the second year of the Plan at least 18 to 19 per cent of the total Central assistance of Rs 250 crores agreed to for the five-year period. The outlays on many of our important schemes like Ennore Thermal Scheme and Parambikulam-Aliyar Hydro-Electric Scheme, work on which had commenced even during the Third Plan period, will reach their peak next year. It will surely not be in national interest to let the pace of execution of these programmes suffer. The provisions we have made under minor irrigation and rural electrification are also considerably less than in the current year and will have to be marked up at least to the level reached in the current year if our targets under agricultural production are to be reached. When these features of next year's plan are taken into account, we will have a strong case for additional Central assistance and we will press it with the utmost vigour. Such additional assistance should cover a significant part of the ultimate gap in the Budget Estimates for 1967–68.

7. We are fully aware of the value of a balanced Budget in the present stage of our economy. The difficult price situation demands that there should be no further deficit financing. But the present deficit in the State's Budget should be traced to circumstances over which the State Government have no control, and is the direct result of a drastic reduction in Central

assistance for Plan Programmes which are already under implementation. No doubt, such reduction affords relief to the Central Budget and enables the Central Government to present a more balanced budgetary position. But it is not proper to seek to minimise deficit financing in Central Budget through unrealistic cuts in Central assistance to the States and throwing the whole process of painful readjustment of programmes to resources on the States. Deficit financing can be avoided only on the basis of a radical recasting of Plan Programmes and priorities and in this process Central Schemes as well as Centre's non-Plan expenditure should also come under scrutiny. The Central Government and Planning Commission should take a comprehensive view of the national resources—those of the States as well as the Centre—and see how they could be more equitably allocated between the Central Plan and State Plans so as to achieve the best possible results. The need of the hour is to step up agricultural production through quick yielding schemes and thus relieve the strain on prices. The programmes which have an impact on agricultural production, mostly come within State Plans, and any cut in these programmes will be unwise. I have no doubt that when the Planning Commission takes up the preparation of the regular Plan for 1967–68, it will make a dispassionate assessment of the relative priorities of the schemes in the Central sector and State sector with reference to the current state of the economy and provide for adequate resources to the States to enable them to fulfil programmes of high priority. If in this process some schemes of lower priority in the Central sector have to be slowed down or deferred, we should not flinch from such a course.

8. A more realistic distribution of resources between the Centre and the States within the framework of the Plan may also be the answer to the problem of

overdrafts of States, on which there has been such keen public debate and discussion. We do not minimise the need for States to manage their affairs prudently, and do all that lies in their power to mobilise and conserve resources for developmental programmes. We shall co-operate fully with the Central Government in all their attempts to promote prudent financial management. I would however plead that when a State exercising the utmost financial discipline finds it difficult to implement agreed programmes, the Central Government and Planning Commission, should also help the State to tide over its difficulties, particularly when these difficulties are of a temporary nature. If such a helpful and statesman like attitude is not brought to bear upon the problem of overdrafts and if instead, the problem is looked at purely from the accounting and banking angle, the process of development in the States will suffer grievously.

9. Among the factors which have caused serious strain on the limited resources of the States we cannot overlook the frequent adjustments in rates of dearness allowance of State employees. Such adjustments are inevitable and fully justified in a period of rising prices. All increases in rates of dearness allowance sanctioned by us up to 1965–66 had been taken note of by the Fourth Finance Commission in its award. But even before this award took effect from 1st April 1966, the Central Government came up with another instalment of increase in rates of dearness allowance. Later, in pursuance of the recommendations contained in the interim report of the Gajendragadkar Commission, the Central Government agreed to further increases in rates of dearness allowance of their employees. The State Government had to sanction similar increases and the combined effect of these two increases is reflected in the next year's revenue and overall deficit. The additional resources accruing from the award of the

Finance Commission to the State are intended to take care largely of the committed expenditure on institutions and services built up during the preceding Plan period, leaving most of the States on the whole without any surplus or deficit on non-Plan account. But there are no arrangements under which new commitments devolving on the States on the non-Plan side are taken care of. This serious deficiency in present arrangements has been recognised by the Fourth Finance Commission, but it could not propose any solution in view of its limited terms of reference. We have again pressed before the Gajendragadkar Commission the need for provision of adequate resources to the States during the pendency of the award of a Finance Commission for meeting additional expenditure on rates of dearness allowance of State Government employees. I hope that the final report of the Commission would suggest a fair and enduring solution to this long standing problem, which has rendered financial management difficult at State level.

10. The present Government will immediately take on hand the preparation of the regular Plan for 1967–68 and present it to the Legislature some time in June. I also hope that by then a clearer picture would become available of Central assistance for the State's Plan and that we would be able to present a Plan which seeks to fulfil more effectively the wishes and aspirations of our people.

11. With these words, Sir, I commend the Budget Estimates for 1967–68 for the acceptance of this House.

MADRAS, C. N. ANNADURAI,
20th March 1967. *Chief Minister.*